IDAHO OUTLOOK

NEWS OF IDAHO'S ECONOMY AND BUDGET

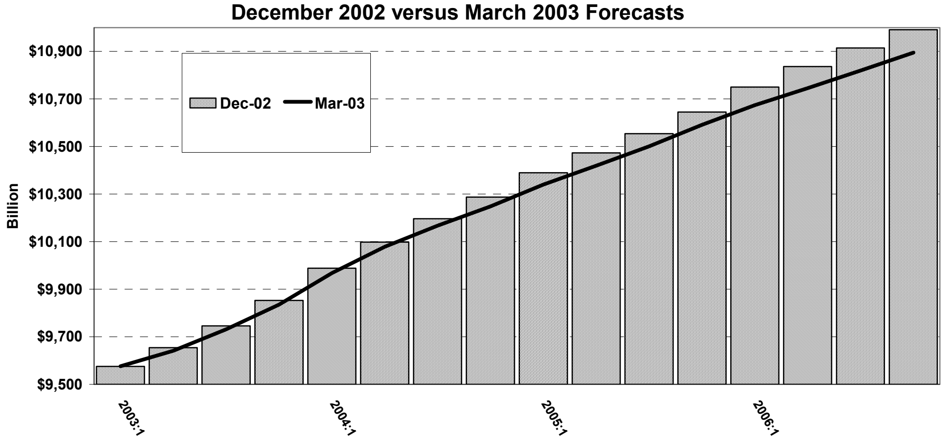
STATE OF IDAHO **DIVISION OF FINANCIAL MANAGEMENT** **APRIL 2003 VOLUME XXIV NO. 10**

Economists and weathermen have a lot more in common than they like to admit. In fact, an old joke says the purpose of economic forecasters is to make weather forecasters look good. But seriously, both have the task of providing useful information on future events. Lately they have something else in common. Weathermen in this part of the country faced the challenge of predicting the weather for a delayed spring. Like the weather, economists find themselves dealing with a postponed economic recovery. This has them scratching their heads and projecting a new outlook for the economy.

In general, economists have composed a softer outlook for the economy. This can be seen by comparing Global Insight's December 2002 and March 2003 U.S. macroeconomic forecasts. These two were chosen because the former is used for the January 2003 *Idaho Economic Forecast (IEF)* and the latter will be incorporated in to the upcoming April 2003 *IEF*. The most quoted measure of the economy's health is real GDP, so this is a reasonable place to start. In December, real GDP was forecast to grow 2.9% this year, 4.5% next year, 3.7% in 2005, and 3.4% in 2006. After reviewing actual data available since then, economists have produced a new forecast. Specifically, real GDP rises 2.7% in 2003, 4.3% in 2004, 3.4% in 2005, and 3.1% in 2006. As a result, the gap between the previously and currently projected real GDP widens over the forecast period. Real GDP in 2006 is 0.8% lower than had been previously forecasted. This gap would have been even wider were it not for the lower projected inflation in the most recent forecast.

There have been a couple of areas of special concern during this economic recovery. Given the revision to the previous U.S. forecast, it is worthwhile to see how these areas have changed since the last *IEF* was published. The first concern is employment. More than a year after real output has recovered, job creation is dismal and the unemployment rate remains stubbornly high. In the previous forecast, job growth was not expected to accelerate until the last quarter of this year. The unemployment rate was forecast to peak at 6.1% in the second quarter of 2003 and fall to just a hair above 5.0% by the end of 2004. The current forecast also shows job growth improving in the last quarter of this year, but it will not be as strong (2.0% versus 3.1%). As in the previous forecast, the unemployment rate peaks at 6.1% in the third quarter of this year, but it takes longer to improve. Specifically, by the end of next year it is around 5.2%. The good news is the unemployment rate should continue improving over the forecast period.

U.S. Real Gross Domestic Product
December 2002 versus March 2003 Forecasts



Source: Global Insight

Another worrisome area has been business investment. After a stunning expansion in the late 1990s and most of 2000, real U.S. nonresidential fixed investment began retreating in the fourth quarter of 2000. A leading contributor to this retrenchment has been the collapse in real investment on equipment. Specifically, in the second quarter of 2000 real business investment on equipment was rising at a 10.9% annual rate. It stalled in the next quarter and had been shrinking until the second quarter of 2002. Thus, investment has been a missing element of the recovery. However, recent growth has caused limited optimism. The good news is real equipment investment is forecast to expand over the forecast horizon and actually surge in a few quarters. The bad news is real equipment investment is lower than had been earlier anticipated. Real investment in equipment was expected to grow at an 8.4% annual average from 2002 through 2006. This has been scaled back to an 8.0% average annual rate in the current forecast.

The current economic situation can be compared to the weather. It is tempting to look at the harsh weather and conclude spring will never arrive. However, we know spring has been postponed, but not cancelled. The same can be said for the economy. The recovery has been postponed, not cancelled.

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General Fund Update

As of March 31, 2003

Revenue Source	FY03 Executive Estimate[3] ($ Millions)	DFM Predicted to Date ($ Millions)	Actual Accrued to Date ($ Millions)
Individual Income tax	886.2	606.7	585.0
Corporate Income tax	86.0	54.6	45.7
Sales Tax	678.9	512.6	518.3
Product Taxes[1]	22.1	16.4	16.3
Miscellaneous	99.8	49.6	58.2
TOTAL GENERAL FUND[2]	**1,773.1**	**1,239.9**	**1,223.4**

1 Product Taxes include beer, wine, liquor, tobacco and cigarette taxes
2 May not total due to rounding
3 Revised Estimate as of January 2003

General Fund revenue was $5.9 million higher than expected in March. This brings the fiscal year-to-date revenue gap to $16.5 million lower than expected. No revenue category was lower than expected for the month of March, and the Individual and Corporate Income taxes were each $2.6 million higher than expected for the month. The year to date shortfall is due to both Individual and Corporate Income taxes, which are respectively $21.7 million and $8.9 million lower than expected. Offsetting this weakness is Sales Tax at $5.7 million higher than expected, and Miscellaneous Revenue at $8.6 million higher than expected, both on a year-to-date basis.

Individual Income Tax revenue was $2.6 million higher than expected in March. Filing payments were $2.2 million higher than expected for the month and now stand $6.1 million above the year-to-date target. Withholding payments were $0.6 million lower than expected, and the year-to-date shortage is now $4.3 million. Refunds were $1.1 million lower than expected in March, but are a whopping $23.0 million higher than expected for the fiscal year to date. Overall, the Individual Income Tax is $21.7 million below the year-to-date target.

Corporate Income Tax revenue was also $2.6 million higher than expected in March. Filing payments were $0.5 million above target, and are now $0.4 million higher than expected on a year-to-date basis. Estimated payments were $2.5 million higher than expected for the month, but are still $3.4 million below the target for the year to date. Refunds were $0.6 million higher than expected in March and are $6.2 million higher than expected for the year to date. Overall, the Corporate Income Tax is $8.9 million below the year-to-date target.

Sales Tax revenue was moderately strong again in March, coming in $0.5 million higher than expected for the month, and now stands $5.7 million ahead of the year to date target. With the 6% sales tax taking effect on May 1, it is likely that April and especially May collections will be strong, due to accelerated purchasing of big-ticket items before the rate increase takes effect.

Product Tax revenue was on target in March, but it is $0.1 million low for the fiscal year to date. Miscellaneous revenues were slightly ($0.3 million) above target in March, bringing the year-to-date excess to $8.6 million.